



NOVEMBER 14, 2024

Job Application for Research Fellowship

Dear Hiring Committee,

I am applying for the research fellowship at the Banca d'Italia, as advertised on EconJobMarket. I am a PhD Candidate in Economics at the Toulouse School of Economics, with an expected defense in spring 2025. My dissertation is written under the supervision of Professor Alexander Guembel. My work spans several areas of financial economics, including **financial intermediation**, **banking**, and corporate governance.

My job market paper investigates how Quantitative Easing (QE) interacts with Basel III regulations by reshaping bank balance sheets. This has the unintended and often overlooked consequence of increasing bank lending costs. The model developed in the paper allows for quantifying regulatory costs and evaluating alternative policies. Notably, the model isolates the costs associated with specific regulatory constraints and shows that QE raises banks' costs by increasing leverage and altering their funding composition. In the course of my research, I had access to the credit registry, along with granular securities holdings datasets.

In another project, I quantify the impact of QE on the European bond market using a demand system where institutional investors hold bond portfolios. My findings suggest that the effectiveness of asset purchases relies on inelastic demand and limited asset substitution. This allows arbitrageurs to capture surplus from central bank policies, hampering the broader transmission of monetary policy. I have also worked on corporate governance, specifically regulations addressing executive compensation and board appointments. My research suggests that such regulations can backfire and yield counterproductive outcomes.

Moving forward, I intend to expand on my work on unconventional monetary policy by examining the broader fiscal impact of asset purchases on taxpayers and assessing the financial stability risks associated with unwinding QE. Additionally, I will explore the effects of QE on the housing market and carry trade dynamics. In corporate governance, I plan to build on my findings that current regulations often fail to achieve their intended objectives. My overarching goal is to understand how policies play out in practice and contribute to developing robust, evidence-based policy frameworks.

My motivation for policy work revolves around crafting effective policies and translating research insights for a broader audience. I am driven by impact and believe that working within a policy institution allows for meaningful contributions to real-world policy-making. I value collaboration and enjoy working closely with colleagues to achieve shared objectives. Furthermore, I see the drafting of policy reports and participation in policy discussions as opportunities to communicate the research frontier to policymakers and to stay informed on current policy priorities. In line with this commitment, I consulted for the OECD in 2024, where I worked on a project studying the consequences of climate policies on bank lending.

My research is a testament to my interest in central banking. For the past three years, I have been working on QE to investigate the implications of this new fixture of monetary policy. My Job Market Paper uses data from the Banque de France, which makes me familiar with credit registries and regulatory datasets.

I believe that my research profile would fit best in the **Financial Stability Directorate**, as my research hinges on rich micro-level datasets and innovative modeling approaches. Further, my research specifically addresses interrelationships between monetary and macroprudential policies. You will find a detailed research statement attached.

I look forward to hearing from you soon. Sincerely,

Basile Dubois

Research Statement

Methodologically, I like to answer policy-related questions using structural models and rich microdata. Given my research direction, I believe I would best fit in the **Financial Stability Directorate** at the Banca d'Italia.

During my PhD, my principal area of interest went from corporate governance to the impact of unconventional monetary policy on financial intermediation and banking. I will discuss each in detail, starting with my JMP, then outline my research agenda for the next few years.

Financial intermediation, banking, and unconventional monetary policy

Following the Great Financial Crisis, central banks engaged in unconventional monetary policy to curtail the economic impact of the crisis. While these policies were broadly successful in addressing market turmoil, their broader outcome remains debatable.

The core argument of my research in this area is that unconventional monetary policy entails hidden costs and complex ripple effects that decision-makers should consider. This necessitates careful structural modeling for proper evaluation. In the context of this research, I have been granted access to confidential Banque de France data on securities holdings, bank balance sheets, and the French credit registry.

My JMP, co-authored with Paul Rintamaki, explores how Basel III regulation interacts with excess liquidity from Large Scale Asset Purchases (LSAPs). These purchases have significantly increased reserves held by banks, which cannot be drained in the Eurozone. This creates a crowding-out effect, forcing banks to sell securities and reduce loan issuance because of Basel III constraints, undermining the intended expansionary effects of Quantitative Easing.

The paper makes several contributions:

1. Our model of bank competition quantifies the trade-offs that excess reserves impose on the banking system, specifically how they influence interest rates and credit availability. This allows us to estimate counterfactual scenarios.
2. We estimate the cost of Basel III regulation for banks by developing a structured cost function inspired by the work of [Lé, Fraise and Thesmar \(2020\)](#). This approach makes it possible to study how regulation drives the behavior of banks in equilibrium.
3. We model the entire balance sheet of banks by combining large regulatory datasets. This allows us to compute the trade-offs between different asset types as banks optimize their investment portfolios. This comprehensive approach is crucial as European banks are **not** subject to the [Volcker Rule](#): lending and market activities are not segregated.

I am also quantifying the impact of quantitative easing on the European bond market in another project. Utilizing Gabaix and Koijen's inelastic market hypothesis, I examine how reduced bond supply influences prices and the role of inelastic demand. The effectiveness of asset purchases depends on this inelastic demand and limited substitution between markets. I use the methodology from Koijen and Yogo (2019) to define the demand function for bond investors and illustrate how sophisticated investors exploit arbitrage by anticipating Central Bank actions. Given the low substitution between market segments, I recommend that Central Banks narrow the timing and scope of asset purchases.

Corporate Governance

Corporate governance has been the subject of significant regulatory oversight since the late 1990s, with the 2002 Sarbanes-Oxley Act acting as a keystone. My research explores two main areas of modern corporate governance regulation: board appointments and executive compensation. I will detail them in turn.

Regulations aim to ensure that directors are independent during nomination, assuming that management may attempt to fill the board with friendly faces. In my project Networks in the Board of Directors, I challenge the notion that pre-existing relationships favor candidates in board recruitment. In fact, candidates with prior ties to current board members are less likely to be appointed, despite being more frequently considered. The traits that enhance a candidate's visibility to the board, such as industry experience, often correlate with board connections, introducing bias and leading to misleading conclusions in past research.

A key element of the Sarbanes-Oxley Act and similar regulations is pay transparency. These policies assume that disclosing executive compensation enables shareholders to control and limit excessive pay. In *What You See is What You Get Paid*, I argue that these regulations may have inadvertently increased executive pay by shifting bargaining power toward executives. This raises doubts about the effectiveness of transparency in controlling pay, a finding not surprising given that pay transparency has also increased bargaining power for salaried workers in other contexts.

General outlook and plans for the next year

My goal across both financial intermediation and corporate governance is to understand how policies play out in the real world. I am focused on bridging the gap between theory and practice to help shape policies that are both effective and grounded in reality.

Over the next year at the Financial Stability Directorate of the Banca d'Italia, I plan to further develop my job market paper into a publishable article and initiate a new research project. My job market paper, which examines the interaction between macroprudential regulation and unconventional monetary policy, aligns closely with the directorate's focus. Furthermore, I believe the unique research environment at the Banca d'Italia is ideal for advancing my research on the effects of asset purchases on non-bank financial institutions. This project is highly relevant, as policymakers are now considering the reversal of asset purchases and the implementation of Green QE. I aim to investigate several broad questions, namely:

- Whether the transmission of asset purchases to the housing market is carried through non-bank financial institutions.
- Whether non-bank financial institutions amplify or dampen the impact of asset purchases on the credit markets.
- The financial stability consequences of letting non-banks access the balance sheet of the Eurosystem through an equivalent to the Fed ONRRP.

Long-term Research Agenda

Financial intermediation

Moving forward, I intend to build on my current projects to further the understanding of unconventional monetary policy. I expect to work on the following gaps in the literature:

- Assessing asset purchase programs: There is a limited understanding of asset purchases' broader [benefits and costs](#), especially regarding their impact on taxpayers and the financial stability risks associated with [unwinding the purchases](#).
- Transmission of asset purchases: As quantitative easing becomes a more permanent fixture in monetary policy, we need to further the understanding of its effects on the [housing market](#) and how [carry trades](#) altered policy outcomes.
- The new monetary framework: The quantity of excess reserves is now decoupled from the base interest rate, which calls for a reassessment of concepts like [the money multiplier](#), taking stock that central banks have relinquished a significant amount of control over the [money supply](#). This opens up many policy-relevant questions, such as whether or not we ought to [allow non-banks to access the central bank's balance sheet](#) or [what is the optimal quantity of reserves](#).

As discussed above, I secured high-quality datasets that allow me to address these questions through data-driven research.

Corporate Governance

My work in corporate governance suggests that current regulation is inefficient at achieving its stated policy objectives. I'm particularly interested in exploring the following areas:

- Director independence: Existing regulations may overstate concerns related to board appointments, while [the board independence issue](#) might arise post-appointment as management can cozy up to directors.
- Executive compensation: The significant [element of luck](#) in executive pay raises questions about the effectiveness of current compensation structures. Alternative approaches could mitigate these issues, such as [longer](#) (5/10+ years) share vesting periods with shorter [cliffs](#) and exercise periods.
- Governance mechanisms: It is unclear in previous research whether [stronger governance mechanisms](#) would be beneficial. I intend to explore the efficacy of [binding shareholder votes](#), director [term limits](#), and [director professionalization](#)—fostering influential multi-firm directors.

Sincerely,
Basile Dubois